Federal Stamp Taxes on Drafts, Checks and Promissory Notes

1919

Guaranty Trust Company
of New York

Federal Stamp Taxes on Drafts, Checks and Promissory Notes

Imposed by
Title XI of the Revenue Act of 1918

1919

Guaranty Trust Company of New York

140 Broadway

FIFTH AVENUE OFFICE
Fifth Avenue and 43rd Street

MADISON AVENUE OFFICE
Madison Avenue and 60th Street

LONDON OFFICE
32 Lombard St., E. C.

LIVERPOOL OFFICE
27 Exchange Buildings

PARIS OFFICE
Rue des Italiens, 1 & 3

BRUSSELS OFFICE
158 Rue Royale

Stamp Taxes on Drafts, Checks and Promissory Notes*

THE Revenue Act of 1918 imposes a tax on drafts and checks, payable otherwise than at sight or on demand, upon their acceptance or delivery, whichever is prior, within the territorial jurisdiction of the United States, and on promissory notes, except those listed below as exempt, and on each renewal of the same. The term "United States" includes the states, the District of Columbia, Hawaii and Alaska.

The tax is at the rate of 2 cents on each $100 or fractional part thereof. On amounts not in excess of $100 the tax is 2 cents.

Any instrument or writing operating as a renewal of a promissory note is taxable, but the mere suspension of payment or forbearance does not constitute a taxable renewal within the meaning of the law, nor does payment of interest on a demand note, without any agreement in writing extending the note.

* Based on Treasury Regulations No. 55.

The payment, however, of interest in advance, after maturity of a promissory note, evidenced by an indorsement, constitutes a taxable renewal.

Liability to tax and the amount thereof, is determined by the form and face of a check or draft and cannot be affected by proof of facts or instructions outside of the instrument. Payment for the stamp is a matter for adjustment between the parties, but obligation rests upon the drawee, payee, or indorsee of a draft to see that the tax is paid before or at the time of acceptance or delivery and both parties to a promissory note are responsible for affixing and cancelling stamps in the required amount.

Checks and Drafts

The following instruments payable otherwise than at sight or on demand are included among taxable drafts and checks:

1. Trade and bankers' acceptances.
2. Post-dated checks expressly payable after their date.
3. Time drafts drawn against the proceeds of drafts exempt under (4) below.

4. Drafts stating no time for payment which are accepted for payment at a certain future date.
5. Time drafts drawn on a domestic bank for the purpose of securing money to purchase goods to be exported.
6. Time drafts, not covering exports, drawn and delivered or accepted in the United States and payable in foreign countries.
7. Time drafts covering articles shipped from the United States, Hawaii and Alaska to the Canal Zone, if such drafts are delivered within the United States, Hawaii or Alaska.
8. Time drafts drawn against shipments from the Virgin Islands, the Philippines and Porto Rico into the United States, if delivery or acceptance of such drafts first takes place within the United States, Alaska or Hawaii.

The following checks and drafts are exempt from tax:

1. Demand checks.
2. Post-dated checks not expressly payable after their date.
3. Time drafts covering shipments to the Virgin Islands, the Philippines and Porto Rico.
4. Time drafts directly covering exports to a foreign country, and constituting an inherent, necessary and bona fide part of the actual process of exportation.
5. Time drafts drawn on domestic banks against export shipments delivered to the first carrier for transportation, covering the period of transit from the interior point to the seaboard.

6. Drafts drawn abroad on a foreign drawee with a foreign payee, passing through a bank in the United States in the course of collection unless delivered by an agent of the drawer to an agent of the payee within the United States.

Promissory Notes

The following promissory notes and renewals of the same are included among instruments taxable:

1. Notes given for security only.
2. Notes payable on demand or after date.
3. Promissory notes accompanying mortgages of joint-stock land banks.
4. Promissory notes secured by bonds of the War Finance Corporation.
5. Promissory notes executed and mailed in the United States to a payee in Canada.
6. Extensions or renewals of promissory notes brought about by extension of mortgages by which such notes are secured.
7. Instruments in the form of promissory notes, representing the interest upon promissory notes, not included under (6) below, and either separate from or prepared in a form and for the purpose of being separated from the principal note.
8. Policy loan and premium extension agreements containing an unqualified promise to pay a specified sum of money at a certain date, except where the sole remedy of the payee in case

of non-payment of the premiums or loans is to reduce or cancel the rights of the insured.

The following instruments are exempt:

1. Certificates of deposit.
2. Bank notes issued for circulation.
3. Promissory notes executed and mailed in Canada to a payee within the United States.
4. Promissory notes issued directly by foreign governments and placed in this country for sale.
5. Promissory notes secured by certificates of indebtedness issued by the Director General of Railroads.
6. Coupons and interest notes which are attached to a principal obligation and are substantially repetitions of the promise to pay interest contained in the principal obligation.
7. Promissory notes secured by United States bonds or obligations issued after April 24, 1917 or secured by the pledge of a promissory note which itself is secured by the pledge of such bonds or obligations. Such bonds must have a par value of not less than the amount of such notes to exempt the latter.

Cancellation of Stamps

Any person using or affixing stamps must so deface the same as to render them unfit for further use by writing or stamping his initials and the date thereon with ink, or by

cutting and canceling such stamp with a machine or punch, which will affix the initials and date. The cancellation should not so deface the stamp as to prevent its denomination and genuineness from being readily determined.

In addition to the above, stamps of the value of 10 cents or more must have three parallel incisions made by some sharp instrument lengthwise through the stamp after the same has been attached to the document, except where the stamps are cancelled by perforation.

Use of Cancelled Stamps—Refunds

A stamp affixed to an instrument and cancelled cannot lawfully be removed and attached to another instrument. Refund will be made by the collector of internal revenue for amounts paid for stamps used in excess of requirements, or on instruments not actually effective and for which a substitute is prepared and stamped, or on instruments not subject to tax.